



# City of Santa Fe, New Mexico

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Larry A. Delgado, *Mayor*  
Mike P. Lujan, *City Manager*

## *Councilors:*

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Matthew E. Ortiz, Dist. 4

July 1, 2005

TO THE HONORABLE MAYOR, CITY COUNCIL, AND CITIZENS OF SANTA FE:

I am pleased to submit the Fiscal Year 2005/2006 Budget for the city of Santa Fe. This budget was based on guarded assumptions of economic conditions and included significant one-time transfers into the general fund. Despite uncertainty regarding revenue trends, the budget maintains all basic services including the personnel, operating costs and equipment needs required to adequately support the current programs for public safety, recreational programs, and maintenance of infrastructure, community services, and administration. However, it should be noted that fleet and equipment replacement needs have been deferred for a number of years.

The primary function of city government in Santa Fe is to provide quality customer service to its citizens in a multitude of diverse areas. The city recognizes that services should be provided as efficiently and economically as possible given available resources. In addition, the needs of the community continue to be addressed particularly as they affect children, senior citizens and lower income families. The limited availability of housing in price ranges that working families can afford is another important concern, as the median cost of a home in Santa Fe exceeds the national average.

In total, the city assists in funding health education and life skills training, self-help groups, a clinic for persons with HIV, adult day care, drug therapy, tutoring, dispute resolution, child care, therapy groups for children of substance abusing parents, as well as funding assistance for a youth shelter, rape crisis center, battered women's shelter, children counseling programs, mental health programs, hot meal program, rental and utility assistance and other counseling programs. The city also continues to fund a number of after school and summer youth recreational programs.

In the area of economic development, \$735,000 was budgeted for firms involved in local economic development. A 1% increment of the city's General Fund state-shared gross receipts tax is allocated to economic development. This amounts to \$360,659.

The city is continuing its programs to increase the availability of affordable housing with \$502,000 from the General Fund allocated to various housing services to assist families in buying homes.

City departments were required to review and evaluate the costs and the benefits of current programs, the effectiveness of their personnel utilization, and needs and requests from the community. Many difficult decisions were required of the City Manager and City Council in evaluating department requests and programs and in allocating available resources. We are proud of the efforts of all those involved in continuing to provide quality services to the citizens of Santa Fe while striving to become more efficient and effective.

## BUDGET OVERVIEW

The city's General Operating Fund pays for the cost of running the day-to-day business of the city. Revenues are derived primarily from local and state-shared taxes, fees and services, licenses and permits, and a variety of other revenues including grants, interest income, and inter-fund transfers. Services are provided by eight major city departments.

### REVENUE

Revenue projections were formulated based on historical information and the professional judgment and analysis of the Finance Department staff. Economic information related to state-shared revenues was obtained from the New Mexico Department of Taxation and Revenue. Other economic and financial information is solicited from the New Mexico Department of Finance and Administration, Santa Fe County, the University of New Mexico Bureau of Business and Economic Research and various national, state and local publications and reports.

The General Operating Fund FY 05/06 *budgeted revenue* is based on total projected revenues of \$66,163,617. Compared to the *budgeted revenue* in FY 04/05 of \$64,873,854, the projected growth is 2.0%, an increase of \$1,289,763. Compared to the *actual revenue* of \$64,328,399 received in FY 04/05, this is an increase of 2.9%. Given recent changes in the collection and distribution of gross receipts taxes, this is a guarded projection requiring ongoing review and analysis during FY 05/06.

The following assumptions materially affected the formulation of the General Operating revenue budget:

1. Gross receipts tax revenues had been budgeted at close to a 3.0% increase from the prior year budget. The city continues to experience fluctuating monthly gross receipts tax revenues. The projection for FY 05/06 is 3.6% higher than the FY 04/05 actuals justifying concern over recent trends in gross receipt tax distributions from the New Mexico Department of Taxation and Revenue.

Historic records and trends for gross receipts are also reviewed, which are as follows:

Fiscal Year 00/01	+2.62%
Fiscal Year 01/02	+2.55%
Fiscal Year 02/03	+4.11%
Fiscal Year 03/04	+4.84%
Fiscal Year 04/05	+1.74%

Projections are set conservatively at a level below the gross receipts tax revenues realized at the time of budget preparation. The level of the previous fiscal year is also considered. Current growth trends point to increasing economic recovery. Considering Santa Fe's reliance on tourism, a highly discretionary economic segment, the relative strength of gross receipts tax revenue should be stable.

In January 2005, gross receipts tax was removed from food items and certain medical payments, however, the gross receipts tax was raised by a ½% increment which was to be used by the state to make these lost revenues to cities and counties. The distributions since have been sharply reduced indicating the possibility that reporting changes were not clearly understood by taxpayers. The New Mexico Department of Taxation and Revenue is researching the issue and providing more training to the taxpayers. If the city does not see a significant recovery in gross receipts tax early in FY 05/06, major budget adjustments will be required.

2. The ¼% municipal gross receipts tax increment was approved beginning in 1994, to fund the transit system with 2/3 of the balance to go to the General Fund to make up a lost increment of gross receipts tax that the state retained and with 1/3 of the balance to fund Quality of Life programs and projects. The amount of funding to General Fund was increased by \$13,045 to \$1,488,116.

The ¼% municipal gross receipts tax increment allocation to transit increased slightly both dollar-wise and percentage-wise. Funding for the fixed route transit operations is \$3,950,085 (exclusive of encumbrances) plus a \$364,417 match for the federal grant, and an allocation of \$582,529 for the Santa Fe Ride program for a total of \$4,897,031.

## EXPENDITURES

In preparing this budget, there were a number of issues and concerns. Key goals were established, as follows:

1. Balance the General Fund matching recurring projected revenues and recurring expenditures, providing for adequate budget for current operations. For the most part, this was achieved. In light of the needs and requirements for various expenditures, this essentially brought operations to the level of the current base budget, with increases (pay packages) offset by reductions (positions). In order to have the reduced revenues cover current base, several one-time transfers to the General Fund were required.
2. Maintain cash reserves in the General Fund at 10% of expenditures.
3. Balance all other funds within realistically projected revenues (and cash balances if fiscally advisable) and match recurring revenues with recurring expenditures, maintaining current programs as much as possible. All funds are balanced budget-wise with revenues to expenditures/expenses and available cash balances with some limited fee increases and other premium increases. The Municipal Recreation Complex (MRC) will continue to require a significant subsidy of \$741,000 (from the 1/2% CIP GRT), and the Genoveva Chavez Community Center (GCCC) will require a subsidy of \$154,610 (from cash balances from the 1/16% GRT). The MRC deficit is largely due to debt service requirements (in contrast to the GCCC, which was funded through general city capital improvement bonds).
4. Maintain key programs, including transit, affordable housing and summer recreation programs, fund Children and Youth programs (3% of state shared gross receipts tax), Human Services programs (2% of state shared gross receipts tax), and economic development (1% of state shared gross receipts tax).
5. Maintain a level of capital outlay replacement in the base General Fund, which was not achieved due to the lack of revenue. It is acknowledged that the aging fleet and equipment inventory needs to be addressed in upcoming budget cycles, and that the city is paying a high cost to maintain the existing fleet and equipment inventory.
6. Evaluate organizational structures, operations, and technologies to increase efficiencies and reduce costs.

A number of worthy programs could have been justifiably increased; however, funding was not available.

## General Fund Programs

The General Fund is balanced; however, it continues to be stretched to maintain current programs and to support the pay plans. For a number of programs, funding has remained level for several years.

In order to balance the General Fund, \$7.6 million of base requests and \$1.2 million of expansion requests were not recommended for funding. Some cash balances were transferred to supplement available revenue, and risk funds were charged for pre-employment, police and fire physicals, employee assistance, and safety supplies in the amount of \$214,230. Significant one-time transfers to the General Fund from other funds were necessary to compensate for projected revenue shortfalls. In addition, some capital outlay, road maintenance and information technology upgrades and replacements were moved to the CIP funds. A vacancy credit of 4.4% was applied. Although these vacancies generally occur without significant impact, the vacancy period will need to be extended. If the gross receipts distributions do not stabilize, some hiring may need to be deferred.

After discounting one-time, non-recurring expenditures and encumbrances of \$2,896,617 contained in the FY 04/05 budget, the FY 05/06 expenditure budget is approximately 2% greater than the Fiscal Year 04/05 appropriation. This resulted from the impact of the pay plans, employee medical insurance, utilities, fuels and liability insurance, as well as increased allocations for Children and Youth, Human Services, Economic Development, the HOME grant, senior grants, city share of the COPS in schools, and library parking in the FY 05/06 budget.

### Employee Pay Plan

The budget incorporates the three union contracts negotiated during the past fiscal year as well as a July increase for non-union.

The non-union pay plan included a 3-tier increase: 2% for salaries under \$45,000, 1.5% for salaries between \$45,000 and \$65,000, and 1% for salaries over \$65,000.

The American Federation of State, County and Municipal Employees (AFSCME) contract was approved with a 2% increase in July and a 1.5% increase in January.

The Fire union contract was approved including a 2% increase in July and a 1.0% increase in January.

The Police union contract included increases for both sworn and non-sworn personnel of a 1-step salary increase and a 1 step longevity increase in July, as well as a 1-step in January. This is equivalent to a 2% July increase and a 1% January increase for sworn, and a 3% July increase and a 1.5% January increase for non-sworn. This contract also contained increases in incentives given for K-9, SWAT, EOD, FTO, bilingual, as well as the four educational incentives.

The January increase for AFSCME, Police and Fire were set increases in this year's contracts and were not contingent on the status of the Gross Receipts Tax as in the prior year.

### Capital Outlay

There is no capital outlay in the general fund due to limited revenues. The budget for capital outlay in FY 04/05 was attributable to FY 03/04 closeout and midyear FY 04/05 increases in revenue. If available, such an approach will be used to fund high priority requirements for FY 05/06.

For the Police Department, a total of \$445,100 is available in the 1/16% Police GRT fund for equipment and vehicle replacement.

### Human Services Providers

For FY 05/06 the city of Santa Fe continued its commitment to support the various human services agencies by appropriating \$721,318 from the General Operating Fund, which represents a 2% allotment of the state-shared gross receipts tax revenue projection.

### Children and Youth Activities

For FY 05/06, the City Council appropriated \$1,081,929 for the Children and Youth Activities Program, which represents the allotment of 3% of the state-shared gross receipts tax revenue projection (with some carryover from the prior year).

In other programs, the following appropriations were approved:

### Santa Fe Trails Bus System

The City Council recommended funding in the amount of \$8,311,755 for the transit system, grant matching, Ridefinders, Santa Fe Ride and Welfare-to-Work programs. This included a U.S. Department of Transportation grants providing \$590,979 for FY 05/06 transit operations and an additional \$1,822,084, including local match of \$289,328, to purchase new buses.

### Water Operations Enterprise Fund

Drought conditions in the southwest continue to affect water supply, and a number of conservation surcharges are applicable at various stages of projected water supply shortfalls. Projects are in the planning phase to increase the water supply with funding requirements in excess of \$100 million over the next five years. A capital master plan and a related finance plan have been completed. A 1/4% gross receipts tax increment to be allocated to water projects became effective July 1, 2005, although additional rate increases will also be required to fully fund all the planned projects.

### Wastewater Operations

A rate increase was approved in FY 03/04 to generate revenue to fund the \$16,000,000 sludge handling facility required by the state before 2007 as well as other projects. Revenues have not reached the forecast level primarily due to the fact that wastewater rates are based on water rates, and water consumption has been significantly decreased by water conservation surcharges. Funds are available for design of the sludge handling facility; however, financing will not be undertaken until all other wastewater funds available are expended and construction is underway and revenues are reviewed at that point. A transfer of \$976,021 to the subsidiary wastewater project fund is included in the budget. Additional rate increases may be required in FY 06/07 to support the financing that may be required.

### Santa Fe Convention & Visitors Bureau (SFCVB)/Lodgers' Tax

The programs funded to some degree from Lodgers' Tax are the Sweeney Convention Center, Convention and Visitors Bureau, transit routes in the downtown/museum areas, overtime for police, fire, and sanitation services for special events, and administration of the tax. The city's tourism advertising contract is budgeted at \$933,827. An additional \$50,000 has been granted to support the Lensic, Santa Fe's Performing Arts Center in exchange for marketing support.

A new increment of the tax was enacted during the 2003/2004 state legislative session that allowed increasing the maximum tax rate from 6% to 7%. The additional increment, as well as two other increments, is dedicated to building and operating a new convention center. The additional bonding capacity from this additional increment will support a proposed \$44 million project with approximately \$10 million in cash available from Lodgers' Tax. The archaeological review and demolition are underway with construction of the new facility to begin in 2006.

### Municipal Recreation Complex

The Municipal Recreation Complex (MRC), including 18-hole and 9-hole golf courses, playing fields and trails, was intended to be self-supporting through user fees to cover operations, maintenance and its associated debt service. The MRC, however, continues to experience shortfalls in revenues and annual subsidies have been required to provide funding to supplement the debt service for the playing fields.

The budgeted subsidy for MRC in FY 05/06 is \$741,000 for a total operating budget of \$2,416,177.

### Genoveva Chavez Community Center

The Genoveva Chavez Community Center (GCCC), including an ice skating rink, swimming pool, exercise facilities, gymnasium, and racquet ball courts, was established in 2000 to be operated with user revenues and a 1/16% gross receipts tax increment to cover its operations and maintenance. An additional operating subsidy of \$154,610 from gross receipts tax cash balances was required to balance revenue and expenditures for FY 05/06. Facility and interest revenues support 47.6% of the \$3,652,376 operating budget with the balance coming from the gross receipts increment allocated to the GCCC and the subsidy.

## ECONOMIC FORECAST

### U.S. Economy

The national economy is continuing to improve with a seasonally adjusted rate of 3.3% growth in real gross domestic product (GDP) in the second quarter of 2005, down slightly from an annual rate of 3.8% in the first quarter of 2005. The production of goods and services is proceeding at a healthy pace. Real gross domestic product (GDP) is expected to grow by approximately 3.5% both 2005 and 2006.

High oil prices, concerns about Iraq and the high federal budget deficits are significant concerns. Other world economies are supporting the dollar in their willingness to convert surplus dollar holdings into holding of U.S. assets. The concern is that this situation may not continue. If foreign central banks begin to diversify away from U.S. assets, the dollar's value may fall and create significant disruptions.

The Federal Reserve continues to increase the federal funds rate to compensate for higher rates of economic expansion to control inflationary pressures. The Federal Reserve is expected to increase rates throughout 2005 and 2006 to counter the risk of inflation.

### New Mexico Economy

The New Mexico economy expanded at a moderate pace during the second quarter of 2005. New Mexico personal income increased at a 6.9% rate during the first quarter of 2005. The second quarter unemployment rate was 5.9%, up from 5.5% in the preceding quarter.

The current outlook for the New Mexico economy is good, but not exceptional. Growth in nonagricultural employment is expected to be 2.1% in 2005 and 2.3% in 2006. Personal income growth is expected to follow a similar path, with gains of 6.3% in 2005 and 5.9% in 2006.

### Santa Fe Economy

The Santa Fe metropolitan statistical area (MSA), as defined by Santa Fe and Los Alamos counties, is second in economic concentration to Albuquerque and third after Albuquerque and Las Cruces demographically in the state. New retail development continues in both the Albuquerque and Santa Fe MSAs.

Santa Fe's unemployment has been significantly less than the state average. For 2005 and 2006, unemployment is forecasted to be 4.3% and 4.4%, compared to 5.6% and 5.5% statewide.

Personal income grew in Santa Fe at a 7.6% rate in 2004, compared to 6.7% statewide. Personal income in 2005 is expected to grow 6.4% locally, 1% higher than the statewide increase.

The economic forecast information on the U.S., New Mexico and Santa Fe economies were extracted from material in the University of New Mexico's "The FOR-UNM Bulletin: A Quarterly Economic Forecast of the New Mexico Economy".

Respectfully submitted,



Michael P. Lujan  
City Manager